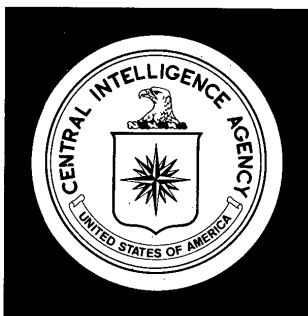


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The President's Daily Brief

September 1, 1975

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Exempt from general
declassification schedule of E.O. 11652
exemption category 5B(1)(2),(3)
declassified only on approval of
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September 1, 1975

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PORTUGAL

The anti-Communists appear unsure of their next move after initial expressions of opposition to the appointment of Vasco Goncalves as Armed Forces Chief of Staff and his replacement as prime minister by Admiral Azevedo.

Supporters of the anti-Goncalves group in the military, led by Melo Antunes, reportedly are considering several options in the hope that they still might avoid a military confrontation. A member of the Antunes group told our embassy that there are four possibilities:

--Put pressure on President Costa Gomes to remove Goncalves by having military units refuse to recognize the new chief of staff.

--Work for the restructuring of the armed forces general assembly to make it more representative.

--Organize a classic military coup in Lisbon with the support of the internal security forces led by General Otelo de Carvalho.

--Organize military-civilian forces, initially in the north, and gradually isolate Lisbon.

So far, the Antunes group appears to be pursuing the first option. General Carvalho has placed his internal security command under the direct authority of the president, removing it from any threat of control by Goncalves. The move by most of the units in the northern military region to place themselves under the command of the central military region was in reaction to the reinstatement of the pro-Communist northern commander, but it is an anti-Goncalves move as well.

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Army units in the Azores and Madeira Islands have declared their opposition to the changes in Lisbon. This action may be tied directly to Antunes' efforts, but if the situation remains unresolved, or Goncalves begins to assert his control, the dissatisfaction of these units could become support for the independence movements now operating more openly in the islands.

Despite these gathering signs of opposition to Goncalves' appointment as chief of staff, the pro-Communist leader retains enough support to make it difficult to dislodge him. The navy, in which Admiral Rosa Coutinho is expected to take over the chief of staff slot vacated by Admiral Azevedo, probably would support Goncalves in any showdown. Goncalves also retains the loyalty of some army units in the Lisbon area and probably in the southern military region. The air force is divided to the extent that it may not be a factor on either side.

President Costa Gomez appears to have calculated that his shuffling of the top military and governmental positions would defuse the political crisis by undercutting the Antunes faction. This gamble was based, at least in part, on the hope that Mario Soares' Socialist Party, which focused its campaign on the removal of Goncalves as prime minister, would join the Azevedo government.

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Meanwhile, the Communist Party has announced its support for the change and various spokesmen, including Goncalves, have indicated that when the cabinet is announced, there may be only a few changes from the former government.

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The change in the government apparently has been accepted by the people, and there has been no reported opposition. As time passes, the possibility of a reaction becomes more remote.

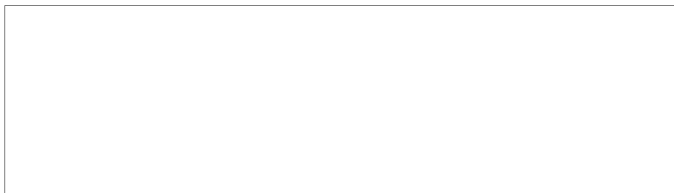
President Morales Bermudez has stated clearly that he is loyal to the principles of the Peruvian revolution. This declaration and the fact that he is by nature a cautious person suggest that he will not change the course of Peruvian politics in the near future. Moreover, his ability to act independently will be limited by the more radical generals who remain on active duty and continue to influence policy. His conduct of governmental affairs will reflect the more prudent and orderly personal characteristics that he brings to the Peruvian presidency.

The initial reaction by the Chileans in that the change will improve relations between the two countries. Most Chilean officers, who have dealt with Morales Bermudez in recent months, believe him to be less extreme than former president Velasco and not prone to impetuous actions.

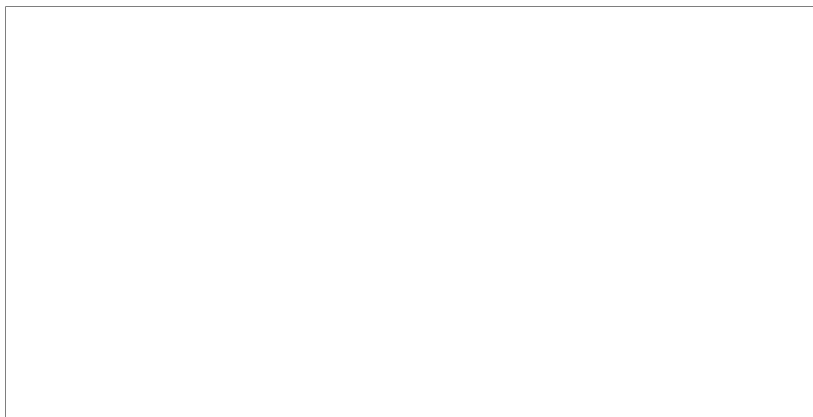
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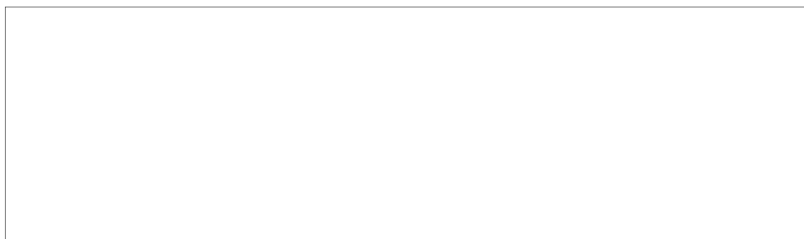
USSR - PORTUGAL - WEST GERMANY



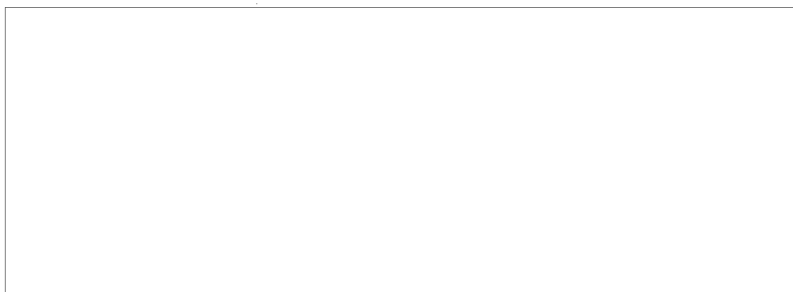
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NOTE

We have received reports this morning that a coup attempt is in progress in Ecuador.

Troops and tanks under the command of army chief of staff, General Raul Gonzalez Alvear, have surrounded the presidential palace in Quito and are demanding President Rodriguez' resignation. Rodriguez reportedly is fighting back, however, and he is said to retain the support of the air force and has some paratroopers with him. Heavy fighting reportedly has occurred near the palace, but the number of casualties is unknown. There have been reports in recent weeks of increasing dissatisfaction with the Rodriguez government's failure to cope with the country's economic problems. A communiqué released by the rebels said that Rodriguez had committed several political, economic, and social errors, and added that he did not have the support of the armed forces or the people.

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UNITED NATIONS: SPECIAL SESSION

The Seventh Special Session of the UN General Assembly on development and international economic cooperation opens in New York today. The two-week meeting offers developed and developing states the opportunity to reverse a trend toward confrontation over economic issues that has emerged over the last several years. The chances for success are not completely bleak. Success means avoiding a major fight and setting a basis for agreements on at least some contentious issues at later, more restricted forums.

These later gatherings would include:

--A meeting of oil producers, consumers, and developing countries to discuss energy, raw materials, and development which will test the alliance between the oil producers and the developing countries.

--The Multilateral Trade Negotiations at which frustrated developing states might seek to obstruct progress; and the Fourth UN Conference on Trade and Development in Nairobi next May which the developing states see as the near culmination of their efforts to acquire a transfer of wealth from the industrialized world.

The tone of the Special Session will depend in large part on the decisions emerging from the meeting of nonaligned foreign ministers in Lima last week. There were more than 80 full members of the nonaligned group in attendance, and observers from some 20 other states and organizations were at the conference. One of the aims of the meeting was to settle on a position for the developing countries to take at the Special Session.

For the most part the nonaligned meeting did not concentrate on economic issues, and it apparently did not harden the developing countries' position. Most of the ministers may have felt their

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viewpoint already was well defined, and their attention was concentrated on political issues. Foremost among these was the divisive problem of how to treat Arab demands for a resolution endorsing Israel's removal from the UN. On Friday, a coalition of African and Latin American states succeeded in passing a resolution condemning Israel which fell short of demanding ouster. The coup that took place in Peru on Friday disconcerted many of the delegates, but its only real effect on the conference was a one-day delay in signing the final documents. The new Peruvian leader, General Morales Bermudez, addressed the conference on its final day.

Another factor likely to determine the approach of the Special Session will be the reaction of the developing countries to the major US policy statement addressing the demands of the third world that they expect from us at the session.

Developing Countries

Under the leadership of Algeria, the more extreme nonaligned states among the developing nations have increasingly dominated the formulation of the entire group's position on economic issues. The nonaligned movement is smaller than the Group of 77--the formal caucus of developing states in the UN, which in fact includes over 100 states. The extremists believe that in order to change the international economic system, the developing states must use all the political and economic muscle they have, including the organization of cartels along the lines of the OPEC model, and the use of steamroller tactics in the UN. The more conservative developing states--probably a majority--disagree with Algerian tactics, not the goal. Their position was summed up by a government-controlled newspaper in Ivory Coast, a state generally considered more willing to compromise than Algeria: "...the alternative is not between the status quo and economic justice, but between peaceful and violent means to economic justice."

Algeria has tried to capitalize on its role as a broker between the oil exporters and the developing countries to enhance its status as spokesman. Algeria has failed, however, to gain substantial

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economic concessions for the developing countries from the OPEC members. Awareness of this failure may eventually weaken Algeria's strength as a vociferous advocate of sweeping economic change.

Algeria, nevertheless, remains the developing power to be reckoned with at the Special Session, by both the developed and developing states. It played the principal role in preparing a position paper which may become the session's final document should the developing states decide to use steamroller tactics.

The paper demands:

--On international trade: the regulation of raw materials and commodity markets by establishing international stockpiles and agreements to fix prices; improved facilities for compensating developing countries for losses of revenue due to falling prices for exports; the linking of prices for raw material exports with those of manufactured imports.

--On transfer of resources: increased and automatic aid flows with the target of 0.7 percent of the donor countries' gross national product. Developed countries should also help ease the debt burden of developing countries and invest financial resources in them.

--On monetary reform: the phasing out of national reserve currencies and their replacement with an international currency such as Special Drawing Rights. The paper calls for increasing the representation of the developing countries in the International Monetary Fund and the World Bank.

--On science and technology: adoption of measures by developed countries to give developing countries the full benefit of technological advances made in the industrial countries. The ultimate goal is a legally binding code of conduct on the transfer of technology.

--On food and agriculture: increased assistance to boost food production in the poor countries. The developing states also are pushing

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proposals discussed at last year's World Food Conference, such as a minimum aid target of 10 million tons of food grains annually. They support the establishment of a system of international food grain reserves and an international fund for agricultural development.

--On organizational reform: the developing countries want to restructure the UN. They do not necessarily care to follow the lead of an experts' committee which offered a proposal for reorganizing the UN's economic functions earlier this year. The developing countries would like the UN system to become more responsive to their development demands and less an institution seeking to guarantee world security.

Industrial Countries

The main goal of the industrialized states--essentially the 24 members of the Organization for Economic Cooperation and Development--will be to find a way at the Special Session to avoid a fight with the developing states. They recognize the impact of a breakdown of the Special Session on relations between rich and poor states--in and out of the UN system--but are also mindful that the meeting is not an end in itself.

For the developed states, the search for compromise will focus on raw materials issues, where most industrialized states feel they can come closest to satisfying developing country demands at the least immediate financial cost. The demands of the developing countries for special financial aid, transfer of technology, and increased investment together with reduced industrial country control over those investments will be harder for most OECD countries to accept.

Guaranteed access to supplies may be less important a factor in the thinking of the developed states than it was at the previous Special Session in April 1974. At that time commodity prices were near historic highs, and the recent success of the OPEC cartel in forcing oil price increases was viewed by developed and developing alike as readily translatable to other raw materials.

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Since that time commodity prices have fallen sharply--they have recovered somewhat lately--and many states, both developed and developing, have come to realize that the industrialized states are equally important suppliers of raw materials, that all industrial states are not import-dependent, and that not all developing states are exporters of raw materials.

The industrialized states are not of one mind on development of raw materials policies. Nor have they all prepared for the Special Session to the same degree. Most agree on one point--which is also shared by most developing states--that it is up to the US to take the initiative. The Europeans and Japanese feel the US has consistently maintained the hardest line against the demands of the developing countries, and they have only reluctantly backed the US on economic issues in UN meetings. None, in fact, voted with the US at the meeting in Lima last April of the UN Industrial Development Organization. Nevertheless, some of the EC countries now appear worried that the US positions to be announced at the Special Session may be too "advanced" and will cause them embarrassment.

The EC Council agreed in late July to guidelines for a policy that would allow the community to "examine" individual commodity issues and to endorse a proposal to extend to all developing states, through the IMF, the EC's own plan for helping to stabilize the earnings of developing countries from exports of certain raw materials.

The OECD states agreed at a ministerial meeting last May to establish high-level groups to examine raw materials policies and overall relations with developing states. These groups, however, have done little to prepare for the Special Session, having focused instead on the long term. This means that the industrialized states will have to rely on ad hoc consultations during the session to coordinate policy.

Tokyo is especially sensitive to the problem of maintaining access to raw materials. Nevertheless, the thrust of Japanese policy has been to sympathize--and when possible to give the appearance

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of being more forthcoming than other industrialized nations--while avoiding costly concessions. Such attitudes have become transparent to most developing states and have only been successful in strengthening the arguments of those who argue that deliberate confrontation may be the only promising stance to take toward the industrialized world.

The Soviets and East Europeans--with the exception of Romania and Yugoslavia--will maintain a low profile at the Seventh Special Session, as they have at previous meetings dealing with these issues. They will express solidarity with the developing states but will also be careful to avoid costly economic commitments. The Chinese will support the developing countries' positions, but they will not assume a leadership position. Peking also certainly will use the session to continue its attacks on the Soviets.

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